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INFORMATION REPORT CONFIDENTIAL

COUNTRY Czechoslovakia/Yugoslavia
SUBJECT Chronology and Background of the Severance of Czech-Yugoslav Trade Relations

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Although it is known that some of the information contained in this report has previously been revealed in the newspapers, this account is rendered in detail to show the extent to which satellite states are bowing to Soviet dictates even when it spells possible financial and industrial ruin to them.

1. In February 1949, the Yugoslavs were 305,000,000 Czech crowns in arrears in their agreed deliveries to Czechoslovakia under the terms of the trade agreement of 24 May 1948. Accordingly, a Czech delegation proceeded to Belgrade in February to try and repair this situation. On 1 March, they agreed to a supplementary goods list, part of which was designed to make good the still outstanding Yugoslav deliveries of investment goods. Among other items, this new agreement called for 9,000 tons of copper and 24,000 tons of lead to be delivered by Yugoslavia.** The lists and protocols were completed but not signed or initialled (paraphiert), and the Czech delegation returned to Prague in an optimistic frame of mind.
2. In May, the order was received in Prague to suspend immediately all deliveries of investment goods to Yugoslavia.*** The Czechs were reluctant to comply with this instruction since Hungary and Rumania had not at this time taken the first steps to stop exporting to Yugoslavia, and Poland had flatly refused to comply. The Czechs nevertheless obeyed the order.
3. On 1 June, Foreign Trade Minister GREGOR invited a Yugoslav delegation to come to Prague. On 4 June the Yugoslav delegation appeared and Sektionschef HRUBIS of the Czech Foreign Trade Ministry presented them with a completely new list of quantities of goods to be delivered by Yugoslavia to

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The Yugoslav delegation was prepared only to negotiate on the basis of the figures contained in the agreement of 1 March 1949, and therefore rejected the new Czech demands.

4. On 6 June, new talks started in Prague, opening with the Yugoslavs asking HRUBIS whether or not he had authority to make such impossible changes in the figures that had already been agreed upon. The latter replied that he had plenary powers from the Minister of Foreign Trade.***** He said, "You must decide." In reply to the Yugoslav question as to how they could be expected to reach a decision on the basis of such outlandish demands, he said, "Sign immediately." The leader of the Yugoslav delegation asked if this was an ultimatum, and HRUBIS answered that it was, and failure of the Yugoslavs to accept it would mean the immediate termination of all trade relations.
5. The Yugoslav delegation withdrew and the same afternoon made a counter-proposal under which they agreed to deliver immediately to the Czechs 20,000 tons of copper, 80,000 tons of lead, and sisal, hemp and pyrites to a total amount of 500,000,000 Czech crowns, which would change the Yugoslav position to that of a creditor of Czechoslovakia. HRUBIS refused this offer and restated the ultimatum, whereupon the chairman of the Yugoslav delegation remarked that not even the Nazis had made such fantastic economic demands. He went on to explain that the export of even 20,000 tons of copper to Czechoslovakia would cause whole sectors of the Yugoslav industrial machine to shut down, and that the Yugoslavs were prepared to make this sacrifice only to display their desire to maintain good trade relations with Czechoslovakia. HRUBIS refused the explanation and the trade between the two countries was broken off.
6. After 8 June, Yugoslav trains carrying goods to Czechoslovakia were stopped just before the border and the goods unloaded in the fields and left to stand in the open air.
7. On 23 June a meeting was called off the Supreme Economic Council of Czechoslovakia in the presence of Foreign Trade Minister GREGOR in order to examine the consequences of the recent rupture of trade relations with Yugoslavia. During the session, it was determined that to obtain the immediate and absolute minimum raw material requirements for the Czech economy, \$28,000,000 in dollars would be needed, since copper, lead and pyrites - all formerly obtained from Yugoslavia - could be had in Western Europe only against dollars. Ing. TUCER, Sektionschef for National Bank Affairs in the Foreign Trade Ministry, said that rather than face the responsibility for rounding up this sum, the equivalent of 1,400,000,000 Czech crowns, he would resign his position.
8. [redacted] the Czech machinery originally intended for export to Yugoslavia, is now being divided up among Poland, Rumania and Hungary.

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**** Comment:

25X1 a couple of months after the expulsion of Yugoslavia from the Cominform had been announced, the referat for Yugoslavia in the Ministry for Foreign Trade was separated from the eastern block states and given to Ing. HRUBIS, who handled only the western countries without planned economies.

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